

Message Text

CONFIDENTIAL

PAGE 01 STATE 038716 TOSEC 040039

15

ORIGIN ARA-10

INFO OCT-01 AGR-05 ISO-00 SS-15 NSC-05 SSO-00 NSCE-00

CCO-00 SP-02 AID-05 EB-07 CIEP-01 TRSE-00 STR-04

OMB-01 CEA-01 CIAE-00 INR-07 NSAE-00 INRE-00 L-03

USIE-00 COME-00 FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01

H-02 /082 R

DRAFTED BY ARA/BR:TSHUGART:DB

APPROVED BY ARA/BR:RZIMMERMANN

USDA:JBENSON(SUBS)

ARA/ECP:SROGERS(DRAFT)

S/S:JLHOGANSON

----- 125793

O P 180221Z FEB 76 ZFF5

FM SECSTATE WASHDC

TO AMEMBASSY BRASILIA IMMEDIATE

INFO USDEL SECRETARY PRIORITY

AMCONSUL RIO DE JANEIRO PRIORITY

AMCONSUL SAO PAULO PRIORITY

C O N F I D E N T I A L STATE 038716 TOSEC 040039

CARACAS FOR ASSISTANT SECRETARY ROGERS

E.O. 11652: GDS

TAGS: ETRD, BR

SUBJECT: USDA REPORT ON GOB EXPORT SUBSIDIES FOR
SOYBEAN PRODUCTS

REF: A. STATE 32862 B. BRASILIA 1307

1. ON FEB. 19 USDA WILL DISTRIBUTE PRELIMINARY REPORT TO
AGRICULTURAL TRADE ADVISORY COMMITTEE (ATAC) WHICH INCLUDES
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 038716 TOSEC 040039

PORTION REPEATED TO YOU IN REF A PLUS INTRODUCTORY SECTION

CONTAINED IN PARA 4 BELOW. EMBASSY'S MODIFICATIONS (REF B) WILL BE INCORPORATED IN FINAL, MODIFIED REPORT TO BE PREPARED BY USDA AND MADE AVAILABLE TO PUBLIC BY END OF NEXT WEEK. USDA WILL IMPRESS UPON COMMITTEE MEMBERS THAT PRELIMINARY REPORT IS TO REMAIN CONFIDENTIAL UNTIL FINAL REPORT IS PUBLISHED.

2. IN INTEREST OF FURTHERING PROCESS OF FRANK, CLOSE CONSULTATION WITH BRAZILIANS ON TRADE ISSUES AND ENSURING THAT GOB IS ACCURATELY INFORMED FROM OUTSET, EMBASSY IS REQUESTED TO MAKE LOW-KEY, MIDDLE-LEVEL APPROACH ON THIS MATTER TO GOB ON FEB. 18. IN COURSE OF THE MEETING, EMBASSY SHOULD PROVIDE COPY OF PRELIMINARY USDA REPORT (REF A HAS SUBSTANTIVE PORTION OF REPORT) AND MAKE FOLLOWING POINTS ORALLY:

A. IN VIEW OF SIGNIFICANCE OF THE PRELIMINARY REPORT TO BE PRESENTED TO THE ADVISORY COMMITTEE ON FEB. 19, WE CONSIDER IT IMPORTANT THAT THE GOB BE APPRISED OF ITS CONTENTS BY US RATHER THAN SECONDHAND. A COPY OF THE PUBLISHED REPORT WILL ALSO BE PROVIDED TO THE GOB AS SOON AS IT IS AVAILABLE. WE WELCOME ANY COMMENTS ON THE ACCURACY OF ITS CONTENTS WHICH THE GOB CARES TO MAKE.

B. THE USDA WAS OBLIGED TO PREPARE THE REPORT BECAUSE OF A LONG-STANDING DEMAND FROM THE ATAC WHICH HAS A KEY, OFFICIAL ROLE IN THE USC'S MULTILATERAL TRADE NEGOTIATION (MTN) POLICY-MAKING PROCESS. TRADE ACT (SECTION 135) PROVIDES FOR THE ESTABLISHMENT OF SUCH ADVISORY COMMITTEES IN CONTEXT OF MTN.

C. WE BELIEVE THE QUESTION OF GOB SOYBEAN EXPORT SUBSIDIES SHOULD BE AMONG SUBJECTS TO BE DISCUSSED AT BILATERAL TRADE SUB-GROUP MEETING WE HOPE TO HOLD IN MARCH, AND ACCURATE INFORMATION ON GOB PROGRAM WILL BE IMPORTANT ELEMENT IN PREPARING FOR THESE DISCUSSIONS.

3. IF ASKED, EMBASSY SHOULD STATE IT HAS NO SPECIFIC INFO ON POSSIBILITY THAT U.S. SOYBEAN PROCESSORS MIGHT FILE A COMPLAINT AGAINST BRAZILIAN SOYBEAN EXPORT
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 038716 TOSEC 040039

SUBSIDIES THOUGH SUCH ACTION COULD BE TAKEN UNDER TA 74 SECTION 301.

4. INTRODUCTION TO REPORT. BEGIN TEXT:QUOTE (TITLE)
BRAZILIAN EXPORT INCENTIVE PROGRAMS - I. INTRODUCTION
A. BRAZIL IS A MAJOR PRODUCER AND EXPORTER OF AGRICULTURAL COMMODITIES, WITH THE GOVERNMENT ACTIVELY ENCOURAGING INCREASED EXPORTS. BUT UNTIL RECENTLY AGRICULTURAL

EXPORTS HAVE NOT TRADITIONALLY BENEFITED FROM THE EXPORT INCENTIVE PROGRAMS AVAILABLE FOR EXPORTS OF MANUFACTURED PRODUCTS.

B. WHILE THE BRAZILIAN GOVERNMENT HAS A POLICY TO ENCOURAGE AGRICULTURAL EXPORTS, PROGRAMS UTILIZED ARE VERY PRODUCT SPECIFIC. THUS IT IS IMPOSSIBLE TO MAKE A BLANKET ASSERTION THAT ALL AGRICULTURAL PRODUCTS BENEFIT FROM THE INCENTIVE PROGRAMS. EACH PRODUCT MUST BE EXAMINED INDIVIDUALLY FOR THE APPLICATION OF EXPORT INCENTIVES.

C. THE FOLLOWING REPORT DESCRIBES THE EXPORT INCENTIVE PROGRAM AS IT APPLIES TO SOYBEANS, SOYBEAN MEAL AND SOYBEAN OIL. IT IS STRUCTURED IN THREE MAJOR PARTS: A GENERAL DESCRIPTION OF THE VARIOUS TAXES AND FINANCIAL INCENTIVES CREATED BY THE BRAZILIAN GOVERNMENT TO STIMULATE EXPORTS, A DESCRIPTION OF WHICH PROGRAMS APPLY TO EXPORTS OF SOYBEAN PRODUCTS, AND FINALLY A DISCUSSION OF THE POSSIBLE EFFECTS OF THE PROGRAMS. WHILE THE LISTING OF TAXES AVAILABLE FOR USE INCLUDES ALL INCENTIVES AVAILABLE, THEY DO NOT ALL APPLY TO SOYBEAN PRODUCTS.

5. II. FISCAL AND FINANCIAL INCENTIVES AVAILABLE:

A. I.P.I. TAX. A VALUE ADDED FEDERAL TAX ON PROCESSING RANGING FROM ZERO TO 60 PERCENT. EXPORTS ARE EXEMPTED FROM PAYMENT OF THIS TAX. A TAX CREDIT EQUAL TO THE EXEMPTED AMOUNT, UP TO 15 PERCENT, IS ALSO AVAILABLE FOR EXPORTS. THIS CREDIT MAY BE USED TO MEET ANY IPI OR ICM (SEE BELOW) TAX OBLIGATION ARISING FROM ANY OPERATION OF THE EXPORTING COMPANY.

B. ICM TAX. A VALUE ADDED STATE TRANSACTION TAX RANGING
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 STATE 038716 TOSEC 040039

UP TO 15.5 PERCENT ON DOMESTIC SALES AND 13 PERCENT ON EXPORTS. THIS TAX MAY BE REDUCED OR ELIMINATED FOR EXPORTS. IN ADDITION SOME STATES GRANT AN ICM TAX CREDIT IN CONJUNCTION WITH THE IPI CREDIT FOR USE AS DESCRIBED ABOVE. THIS CREDIT IS EQUAL TO THE IPI CREDIT, UP TO 13 PERCENT.

C. INCOME TAX. THE CURRENT FEDERAL INCOME TAX ON CORPORATE PROFITS IS 30 PERCENT. EXEMPTION FROM OR REDUCTION IN THE INCOME TAX IS GRANTED FOR INDUSTRIAL (AND PRESUMABLY SOME AGRICULTURAL) PRODUCTS FOR PROFITS FROM EXPORTS OF MANUFACTURED GOODS, PROFITS FROM DOMESTIC SALES FINANCED BY LONG-TERM CREDITS FROM INTERNATIONAL OR FOREIGN GOVERNMENTAL AGENCIES, AND PROFIT FROM DOMESTIC SALES TO FOREIGN FLAG SHIPS AND PLANES TO BRAZIL. THE PERCENTAGE TO BE

DEDUCTED FROM TAXABLE PROFIT IS CALCULATED: $ER \text{ OVER } TR \text{ TIMES } 100$. WHERE ER EQUALS EXPORT REVENUES PLUS FISCAL INCENTIVES AND TR EQUALS TOTAL REVENUES. AN EXEMPTION, REDUCTION OR REFUND OF THE WITHHOLDING INCOME TAX ON REMITTANCES TO FOREIGN COUNTRIES IS GRANTED FOR:

- 1) EXPENSES FOR EXPORT PROMOTION.
- 2) PAYMENTS OF ROYALTIES.
- 3) INTEREST AND COMMISSION PAID ON FOREIGN LOANS REGISTERED WITH THE CENTRAL BANK AND DESTINED TO FINANCE EXPORT PRODUCTION.
- 4) INTEREST AND EXPENSES PAID TO DISCOUNT TIME DRAFTS.

D. SPECIFIC TAXES ON FUELS AND ELECTRIC POWER. THERE IS AN EXEMPTION FROM THIS TAX FOR FUEL OR SUPPLIES TO BRAZILIAN FLAG VESSELS SERVICING FOREIGN PORTS AND TO

FOREIGN FLAG VESSELS CALLING AT BRAZILIAN PORTS.

E. TAX ON FINANCIAL OPERATIONS. EXEMPTIONS FROM THIS MINOR TAX ARE GRANTED FOR INSURANCE ON EXPORTED MERCHANDISE, EXPORT CREDIT INSURANCE AND ADVANCE PAYMENTS ON EXPORT EXCHANGE CONTRACTS.

F. IMPORT DUTY. THE IMPORT DUTY FOR SPECIFIC ITEMS DESTINED FOR THE PRODUCTION OF EXPORTS MAY BE EXEMPTED
CONFIDENTIAL

CONFIDENTIAL

PAGE 05 STATE 038716 TOSEC 040039

OR REDUCED. (IT IS NOT CLEAR HOW THIS INCENTIVE MIGHT BE AFFECTED BY RECENT IMPORT RESTRICTIONS.)

G. CREDIT INCENTIVES. LOANS AT INTEREST RATES AS LOW AS EIGHT PERCENT (MARKET RATE IS NEAR 20 PERCENT) ARE MADE FOR PRODUCTION DESTINED FOR EXPORT. FURTHER DETAILS AS TO ELIGIBILITY, SPECIFIC TERMS OF THE LOANS AND PROCEDURES NECESSARY TO SUBSTANTIATE THE LOANS ARE NOT CURRENTLY AVAILABLE. END TEXT UNQUOTE.

6. WE APPRECIATE NEGATIVE IMPACT THIS MAY HAVE ON ATMOSPHERE FOR SECRETARY'S VISIT BUT IN VIEW OF FACT IT NOT REPEAT NOT POSSIBLE TO POSTPONE ATAC MEETING, BELIEVE WE HAVE LITTLE ALTERNATIVE. IT SEEMS IMPERATIVE WE SHOULD NOT BE CAUGHT SHORT IN OUR PROFESSION OF FRANKNESS IN DEALINGS WITH GOB THESE MATTERS. EVEN ASIDE FROM POSSIBILITY OF LEAK, GOB HAS EXCELLENT SOURCES OF INFORMATION WITH REGARD TO VARIOUS TRADE ASSOCIATIONS. IN ANY CASE PUBLICATION IS ANTICIPATED FOLLOWING WEEK AND OUR WILLINGNESS TO BE FORTHCOMING WOULD INDEED BE OPEN TO QUESTION IF WE SEEMED SIMPLY TO WAIT FOR SECRETARY'S DEPARTURE PRIOR TO PUBLICATION OF REPORT. INGERSOLL

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: REPORTS, TOSEC, COMMITTEES, EXPORT SUBSIDIES, SOYBEANS
Control Number: n/a
Copy: SINGLE
Draft Date: 18 FEB 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: buchant0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976STATE038716
Document Source: CORE
Document Unique ID: 00
Drafter: TSHUGART:DB
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760059-0705
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760238/aaaabhbs.tel
Line Count: 223
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 76 STATE 32862, 76 BRASILIA 1307
Review Action: RELEASED, APPROVED
Review Authority: buchant0
Review Comment: n/a
Review Content Flags:
Review Date: 14 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <14 JUL 2004 by SmithRJ>; APPROVED <21 OCT 2004 by buchant0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: USDA REPORT ON GOB EXPORT SUBSIDIES FOR SOYBEAN PRODUCTS
TAGS: ETRD, BR, AGR
To: BRASILIA
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006